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Arizona Corporation Commission
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Arizona Corporation Commission
Commissioners Wing
1200 W. Washington
Phoenix, Arizona 85007

Re: ***IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR (1) APPROVAL OF A NET METERING TARIFF AND (2) PARTIAL WAIVER OF THE NET METERING RULES: DOCKET NO. E-01933A-15-0100***

COMMENTS OF ARIZONA INVESTMENT COUNCIL IN SUPPORT OF APPLICATION

Dear Commissioners:

On behalf of Arizona Investment Council's 6,000 individual members who are debt and/or equity investors in Arizona utility companies, I offer these comments in strong support of moving forward with TEP's proposed net metering tariff and partial waiver of the Commission's net metering rules.

1. *The Commission has previously recognized that cost shifting occurs due to the proliferation of customers who self-generate.*

2. *Delaying action on TEP's application until consideration in the company's next rate case will exacerbate this cost shift, thus imposing additional cost burden on other customers and missing an opportunity to introduce gradualism in treating the underlying problem.*

3. *Recommendations by TASC, SEIA, ACC Staff and others to delay action until TEP's next rate case are unreasonable.*

I. THE COMMISSION HAS PREVIOUSLY RECOGNIZED THAT COST SHIFTING OCCURS

In Decision No. 74202, the Commission acknowledged, in an application by Arizona Public Service Company, that cost shifts from self-generating customers to other customers occur as a result of net metering. In Decision No. 74202, the Commission stated ". . . we find that the proliferation of DG installations results in a cost shift from APS's DG customers to APS's non DG residential customers absent significant changes to APS's rate design[1]."

[1] ACC Decision No. 74202, Finding of Fact 49.

TEP's current net metering tariff results in the same type of cost shifts explained in ACC Decision No. 74202. TEP seeks to reduce the level of this cost shift through its application for a net metering tariff, which provides a bill credit for excess energy at a rate comparable to utility-scale solar power for new self-generating customers.

Since the Commission, in Decision 74202, acted on APS' proposal for DG customers without a requirement to do so in a rate case, the Commission should afford TEP the same opportunity to mitigate this problem now through a gradual approach.

II. DELAYING ACTION ON TEP'S APPLICATION UNTIL CONSIDERATION IN THE COMPANY'S NEXT RATE CASE WILL EXACERBATE THIS COST SHIFT

As the price of solar panels has fallen substantially in recent years and new, zero/low down-payment rooftop solar leasing arrangements have been instituted by solar installers, the number of self-generating solar customers has risen dramatically in TEP's service territory. This exponential growth of rooftop solar was not anticipated when the Commission authorized the company's initial net metering tariff, which provides another subsidy to encourage solar development. As a result, the level of fixed costs shifted onto non-DG customers has also grown dramatically and will continue to increase. TEP forecasts the number of DG applications in 2015 at 60% greater than the previous year[2].

In light of the surprising rapid growth in rooftop solar installations, the Commission has taken measures to gradually reduce the cross subsidies instituted to jump start this nascent industry. For example, the Commission has reduced and eliminated up-front subsidies for solar installations and acted on the request by APS to implement an additional fee to partially recover grid-related costs from new solar installations. The TEP request is another example in this gradual approach toward lowering subsidies and reflecting appropriate cost recovery[3].

Further, TEP has estimated the level of costs shifted onto non-DG customers and unrecovered fixed costs at $7 million for 2014. Absent timely action by the Commission, the level of fixed costs shifted onto non-DG customers and investors will continue to grow. TEP estimates an additional $2 million to $3 million annually in unrecovered fixed costs will be shifted onto non-DG customers[4].

While the TEP net metering tariff does not fully eliminate the cross-subsidy burden transferred onto non-DG customers, it provides an appropriate first step and is a reasonable and understandable approach for the company and the Commission.

Timely action on the net metering tariff application will further reinforce the view of an improved regulatory environment at the ACC. Moving ahead with a hearing on the net metering tariff will further demonstrate that the Commission is willing to tackle important issues without unnecessary regulatory overhead.

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[2] TEP Initial Brief in Support of its Application, p. 2, lines 4-7, May 15, 2015.

[3] The cost shift issues associated with current net metering practices are also of concern to Arizona's electric cooperatives experiencing rapid growth in rooftop solar installations. Trico Electric Cooperative and Sulphur Springs Valley Electric Cooperative have also filed applications with the ACC to alter net metering tariffs.

[4] TEP Application, p. 6, lines 1-3, March 25, 2015.

III. RECOMMENDATIONS BY TASC, SEIA, ACC STAFF AND OTHERS TO DELAY ACTION UNTIL THE NEXT RATE CASE ARE UNREASONABLE AND RESULT IN UNNECESSARY HARM TO NON-DG CUSTOMERS AND SEND THE WRONG SIGNAL TO INVESTORS.

Unlike TEP's sister company, UNS Electric, TEP does not have a rate case currently on file with the Commission in which the net metering tariff could be considered. Neither has the company indicated it will be filing a rate case in the near future. Assuming hypothetically the company did file a rate case next year using a 2015 test year, a decision from the Commission addressing net metering rates among other rate issues would take an additional year. Therefore, relief from the cost shifts for new DG installations would not occur for at least two years at the earliest. Waiting until the Commission issues a decision in a next rate case will mean the amount of cost shifts and unrecovered fixed costs could approach $15 million on an annual basis by that time.

Such a delay places an escalating burden for paying for unrecovered fixed costs on non-DG customers and sends the wrong signal to investors.

Further delaying the matter to a future rate case also places the Commission in an awkward position by allowing the inequities between DG and non-DG customers to build for a minimum of two more years.

Additionally, delaying this next step in addressing subsidies for rooftop solar installations and related burden on non-DG customers until a next rate case is a step backward from the progress the Commission has recently made to reduce regulatory lag in processing cases that come before it.

Given the mounting risks associated with current net metering arrangements on non-DG customers and investors, AIC requests the Commission set aside pleas to further delay the matter to a rate case and instead proceed expeditiously to hearing and a decision on the application as filed.

Very truly yours,

Gary M. Yaquinto
President & CEO

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